

# **MACROECONOMICS FOR WARTIME UKRAINE**

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# RUSSIAN AGGRESSION

The scale of destruction and atrocities not seen in Europe since World War II



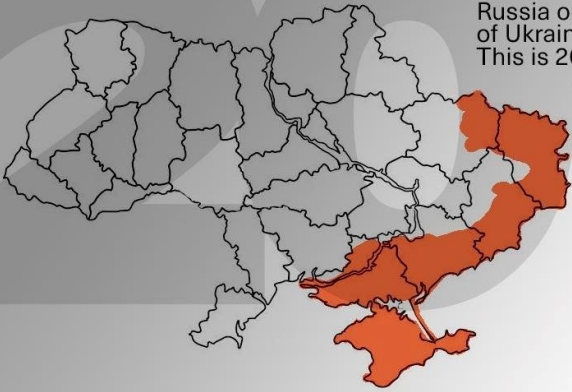
Bucha, a suburb of Kyiv (sources: New York Times and Kyiv Independent)





(source: New York Times)

# Ukraine



Russia occupied 125 000 km2 of Ukraine's territory.  
This is 20% of the country's area

# Italy



Russia occupied 125 000 km2 of Ukraine's territory.  
This is 41% of Italy.

Just remember this when you offer Ukraine to surrender

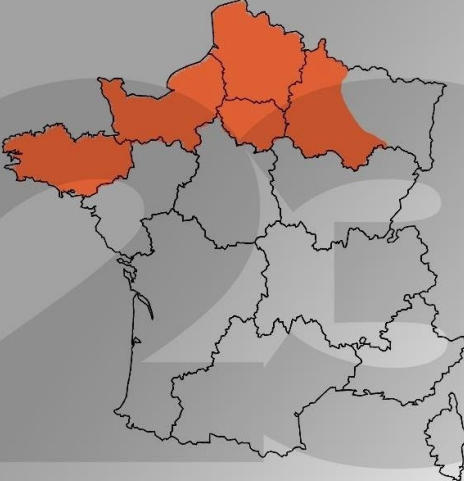
# Germany



Russia occupied 125 000 km2 of Ukraine's territory.  
This is 35% of Germany

Just remember this when you offer Ukraine to surrender

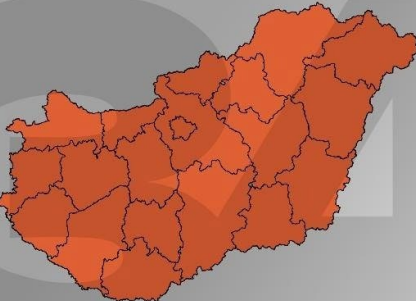
# France



Russia occupied 125 000 km2 of Ukraine's territory.  
This is 23% of France

Just remember this when you offer Ukraine to surrender

# Hungary



Russia occupied 125 000 km2 of Ukraine's territory.  
This is 34% more than Hungary

Just remember this when you offer Ukraine to surrender

(source: VoxUkraine)



# RUSSIAN AGGRESSION

Ukraine's GDP falls by 30-50% in 2022

Unemployment at 35%

Inflation is close to 30%

Millions of Ukrainians are refugees in other countries



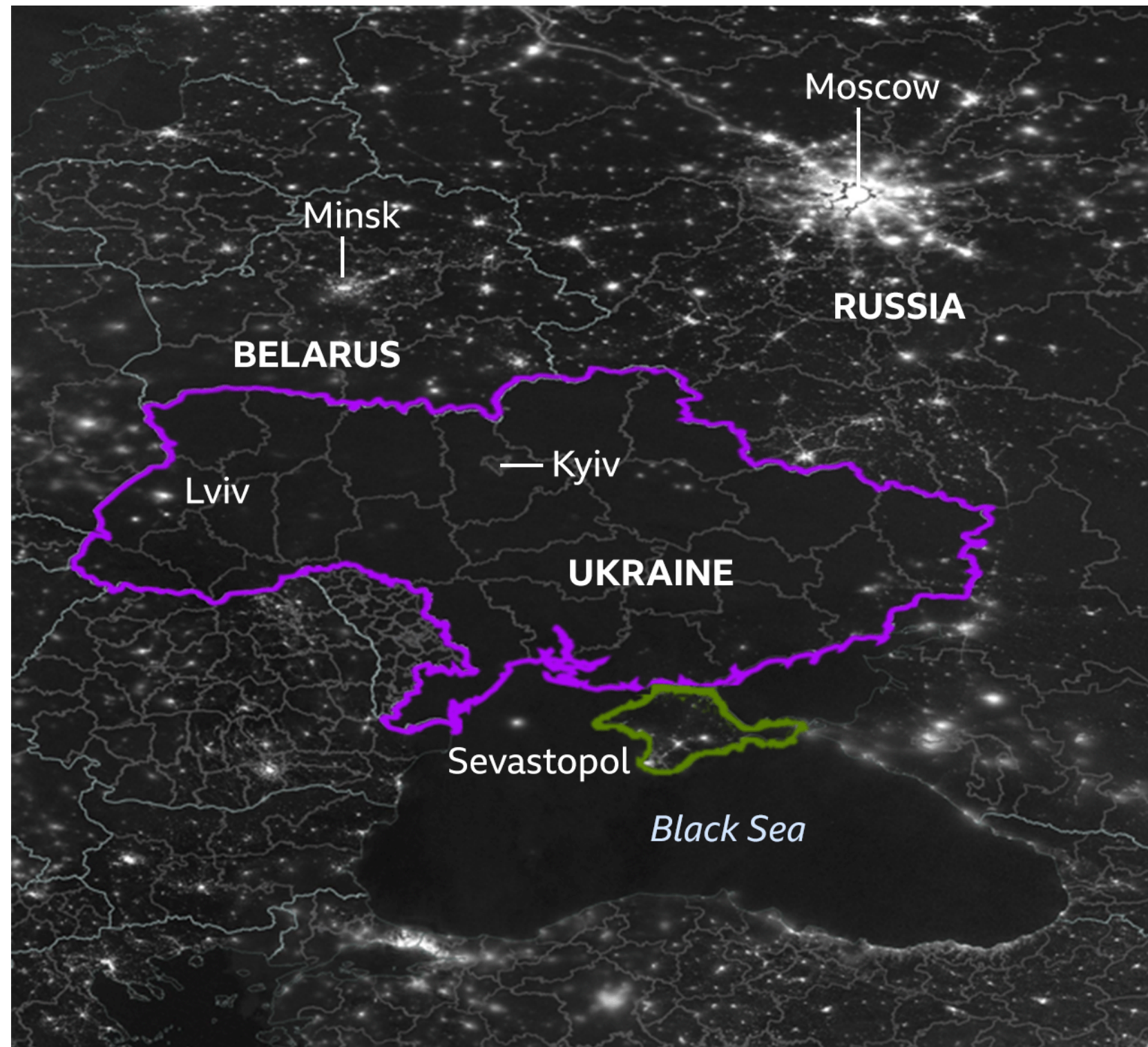
(source: AP)

# THREE IMMEDIATE CHALLENGES FOR MACROECONOMY

- Energy
- Fiscal deficits
- External imbalance



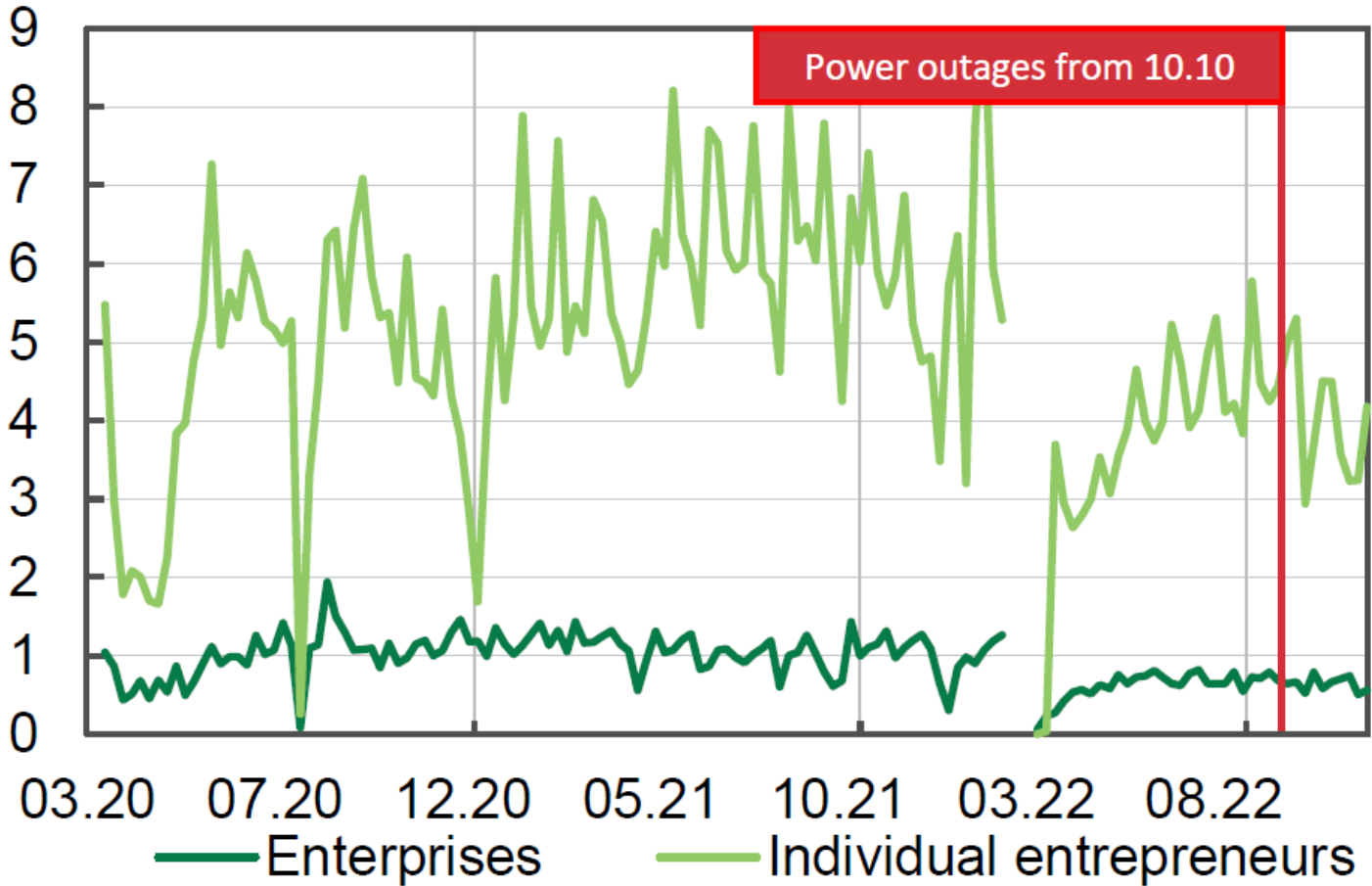
# NIGHT LIGHT INTENSITY



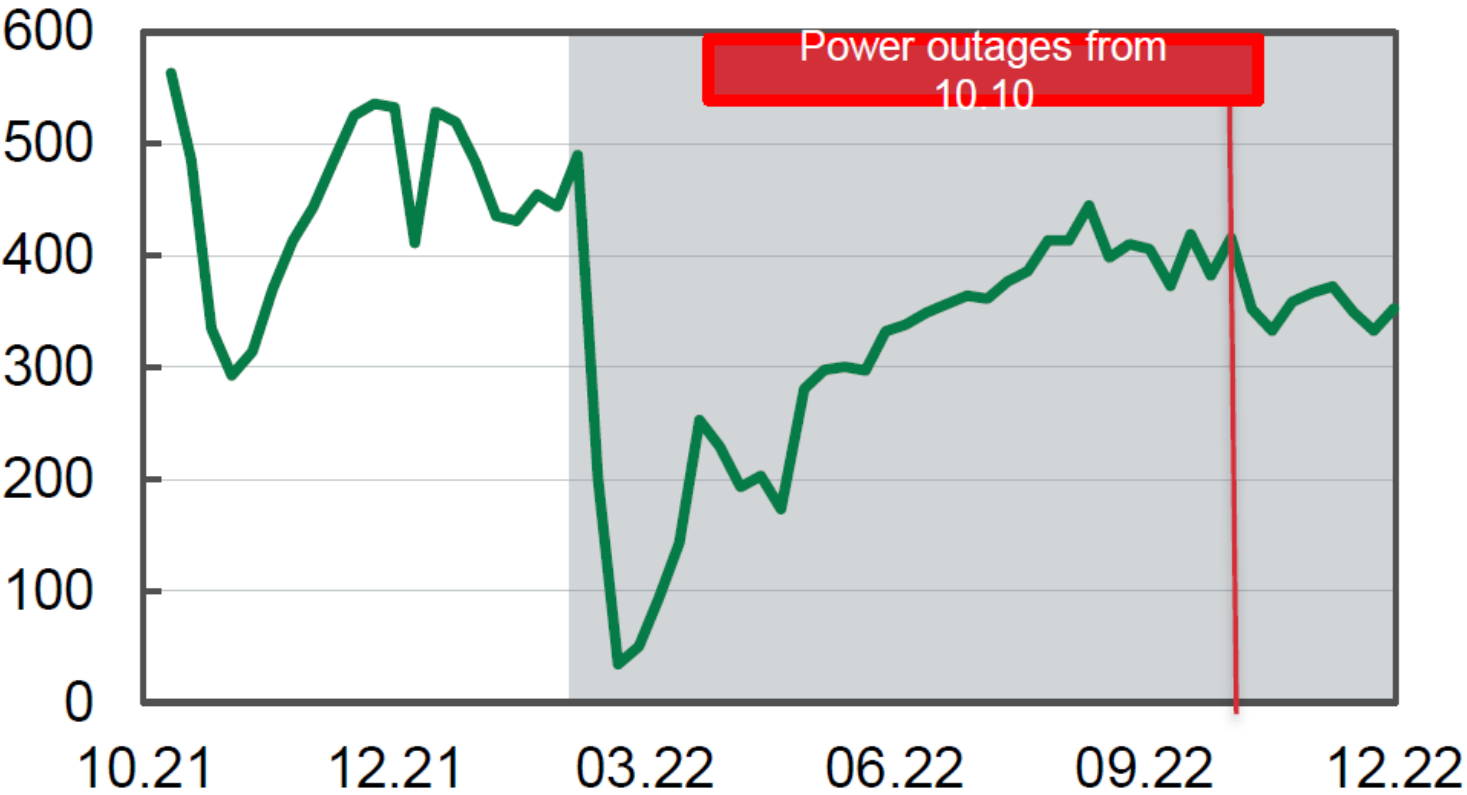
 Russia annexed Crimea in 2014

Source: Nasa, 24 November

New business registrations, thousands



Number of UZ tickets sold per week, thousands

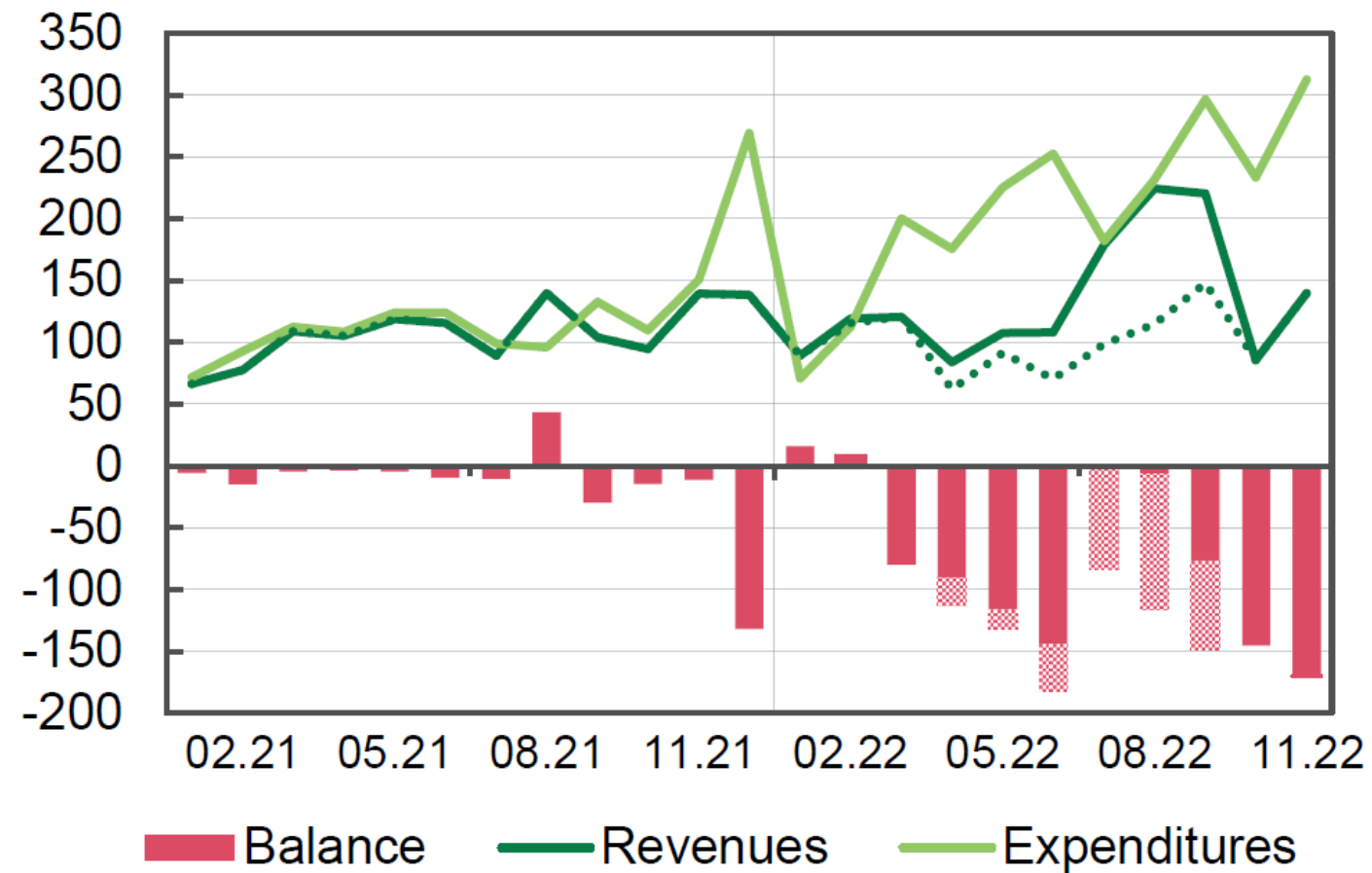


(source: National Bank of Ukraine)



# FISCAL POLICY

Main State budget indicators\*, UAH bn

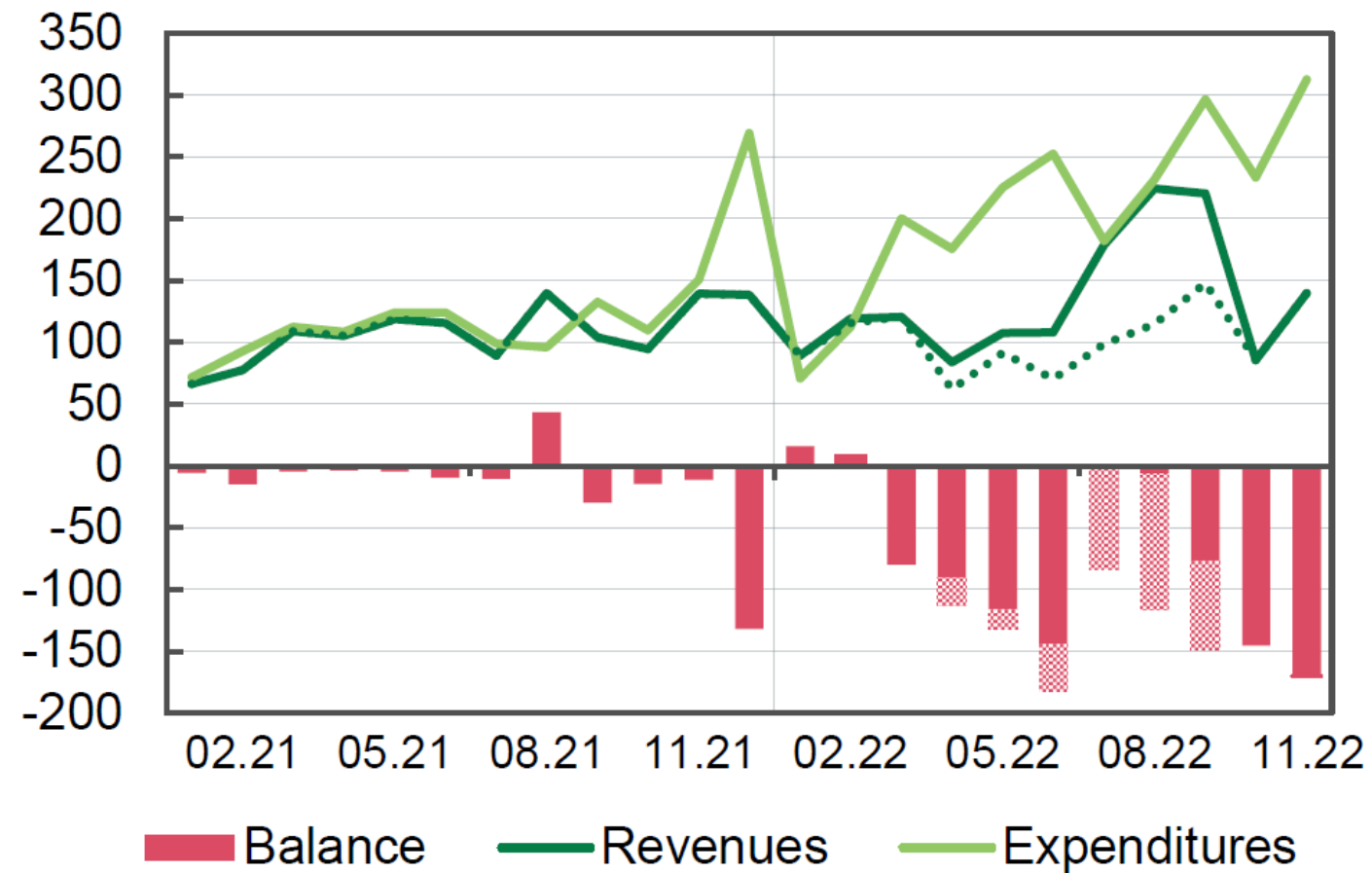


\* Dotted and patterned fillings show relevant indicators excluding grants. \*\* Debt transactions are net borrowings.  
November – preliminary and high-frequency data from the MFU website. NBU calculations based on the MoF's website information.  
Source: Treasury, MoF, NBU staff estimates

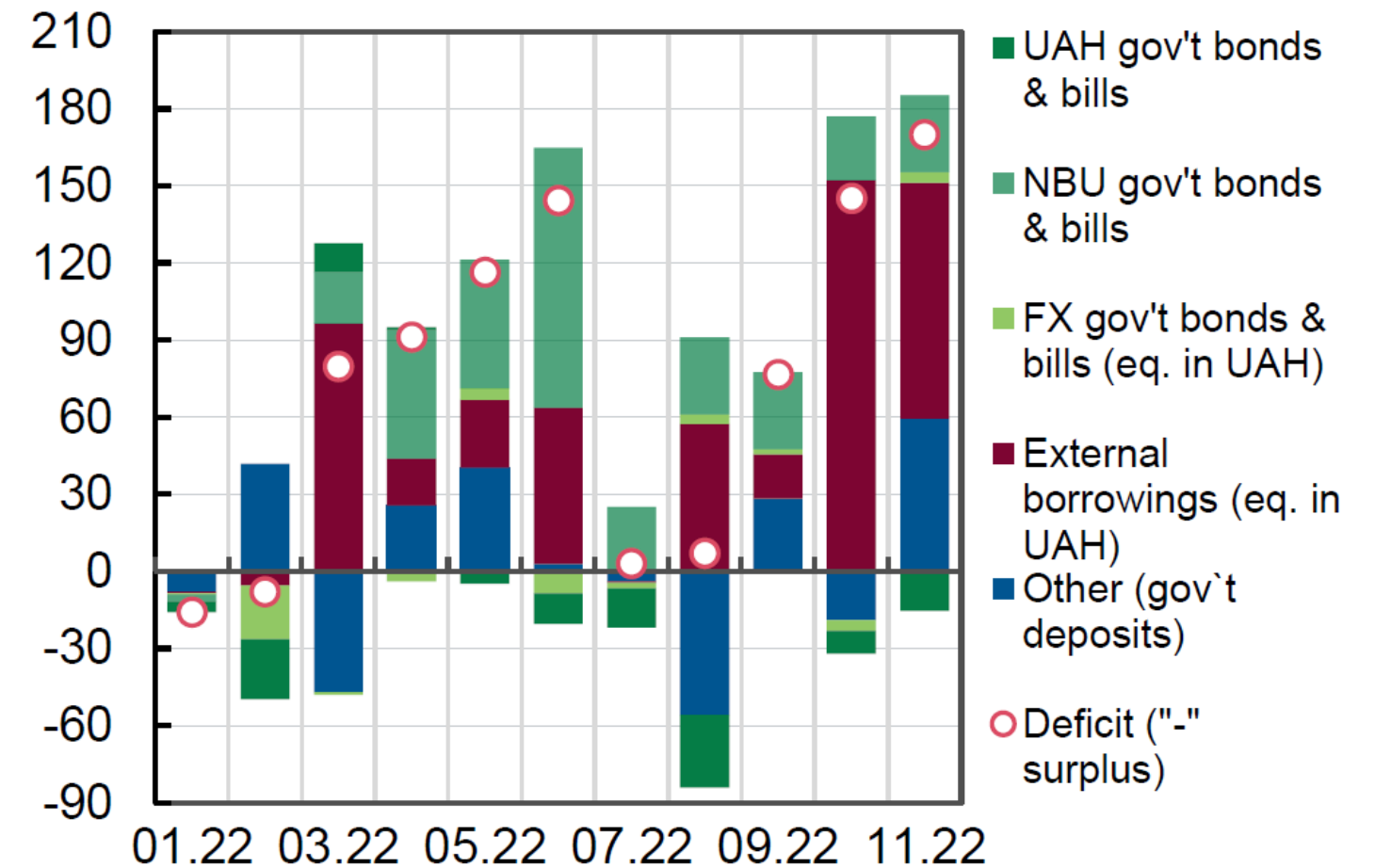
Huge fiscal deficit: ~ \$3-5 bn per month

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Main State budget indicators\*, UAH bn



State budget balance financing\*\*, UAH bn



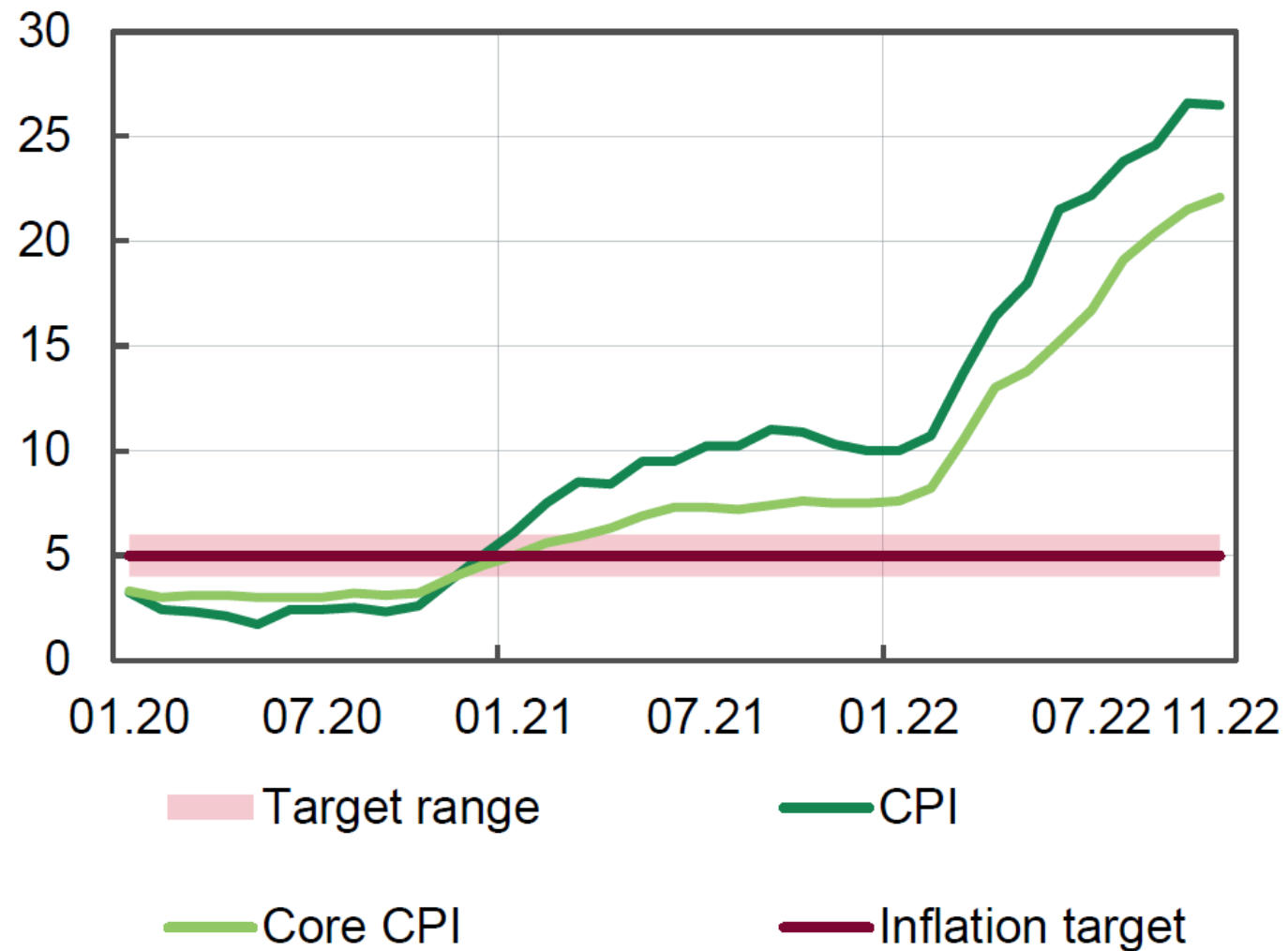
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Cover fiscal needs: 1/3 taxes, 1/3 external aid, 1/3 seigniorage (printing money)

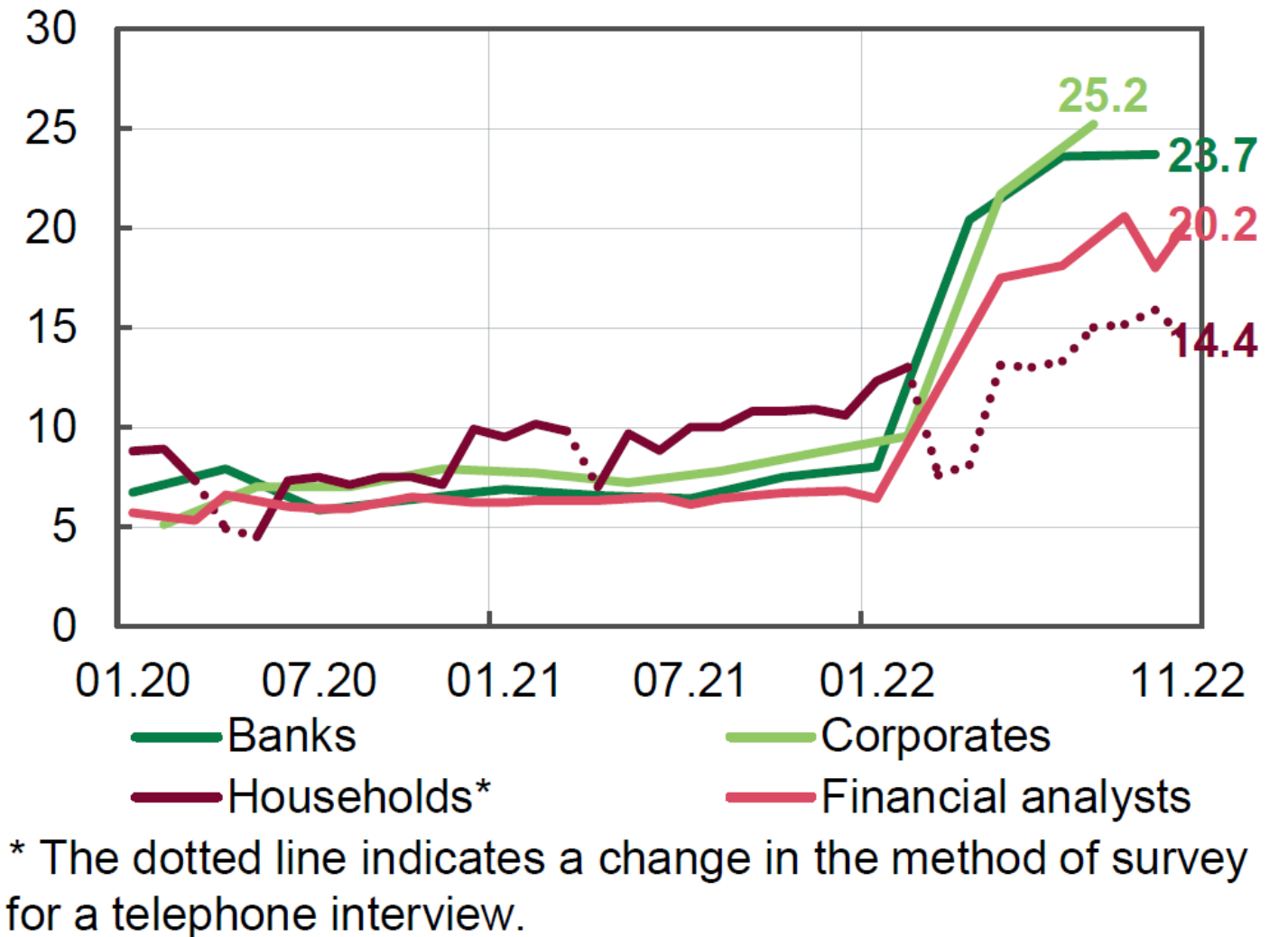


# INFLATION

Inflation and inflation target, % yoy



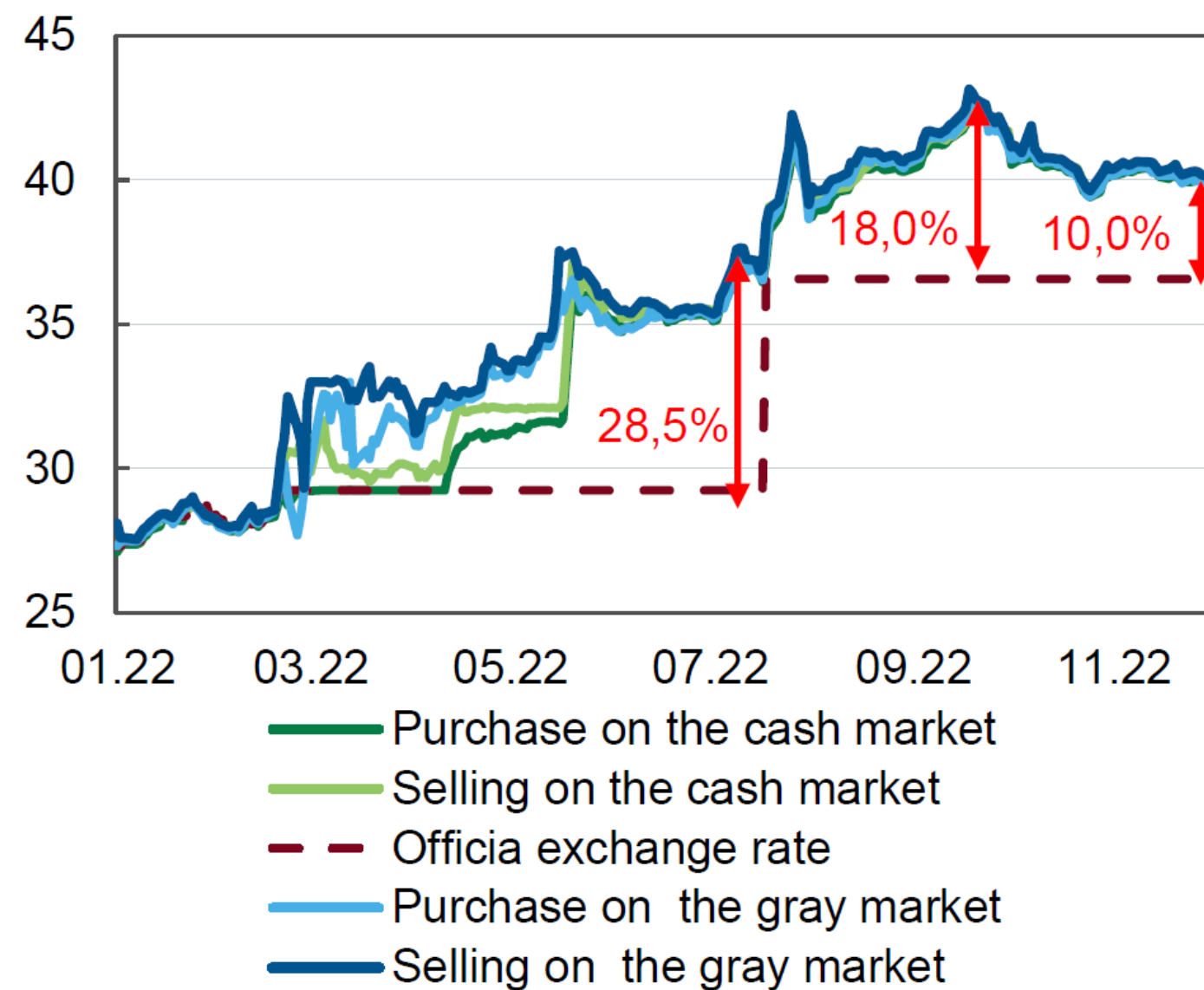
Inflation expectations for the next 12 months, %



Fiscal dominance  $\Rightarrow$  Printing money  $\Rightarrow$  Inflation  $\uparrow$

# MONETARY POLICY

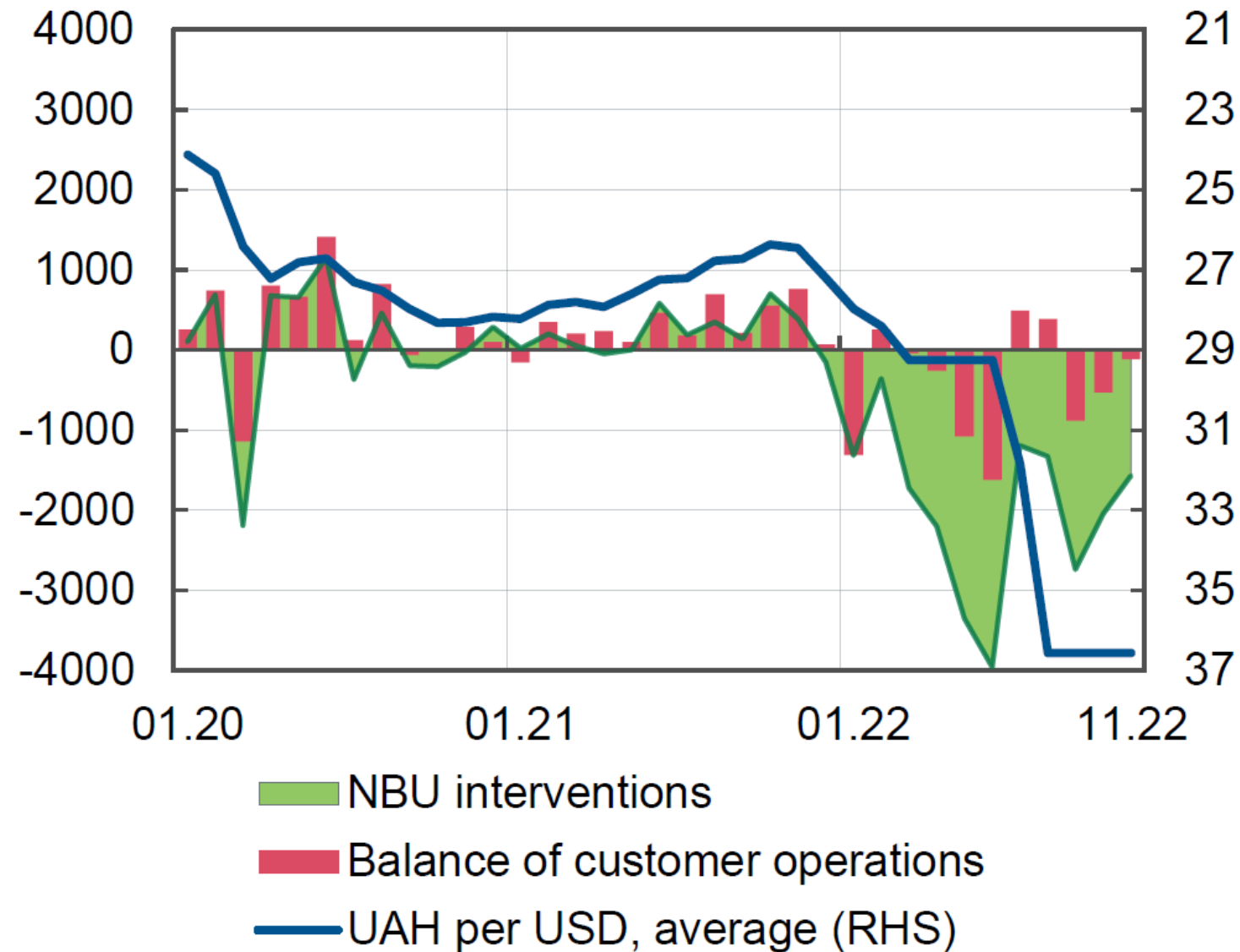
Exchange rates UAH/ USD\*



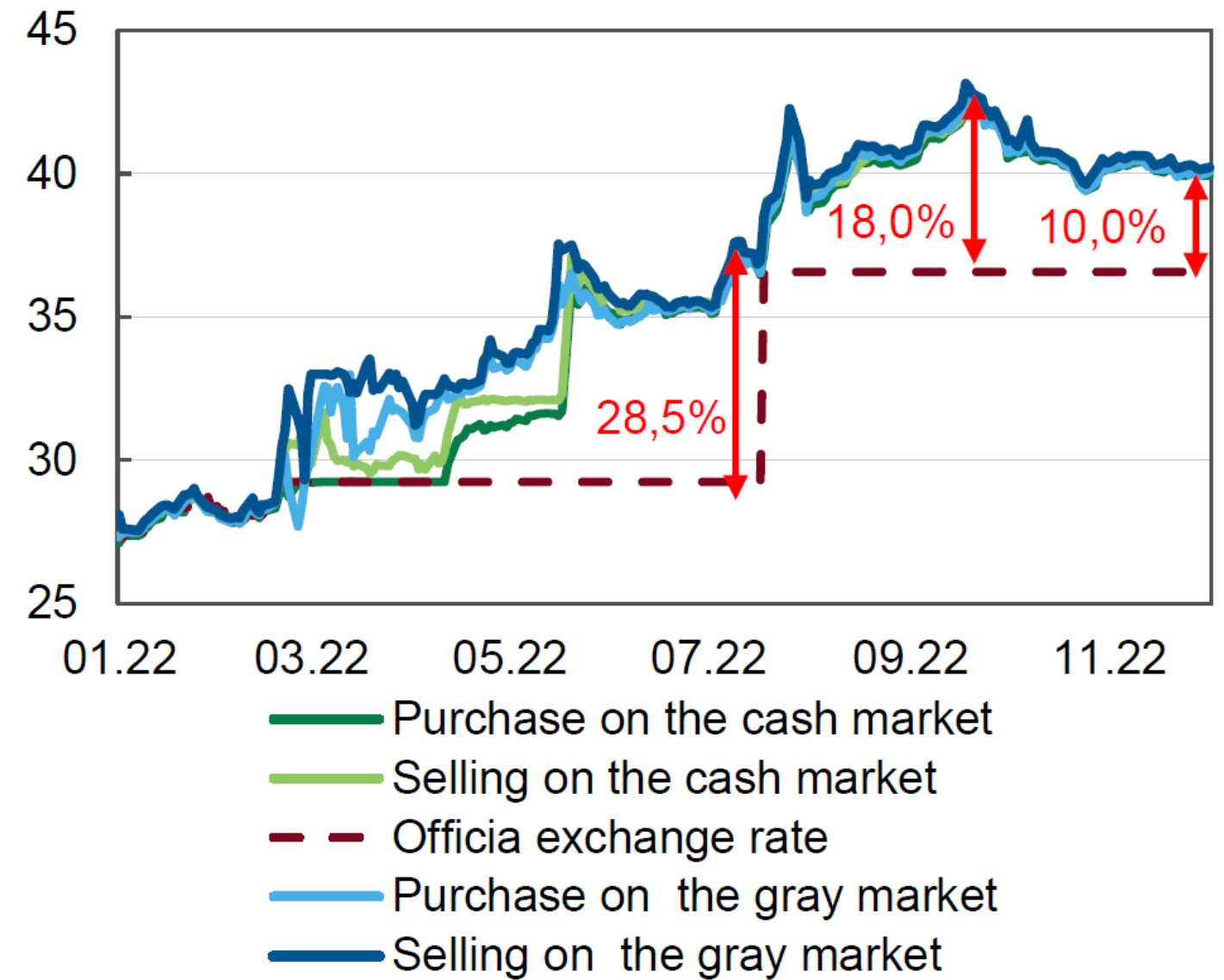


# MONETARY POLICY

Net sale and purchase of non-cash and cash foreign currency by bank customers, USD m



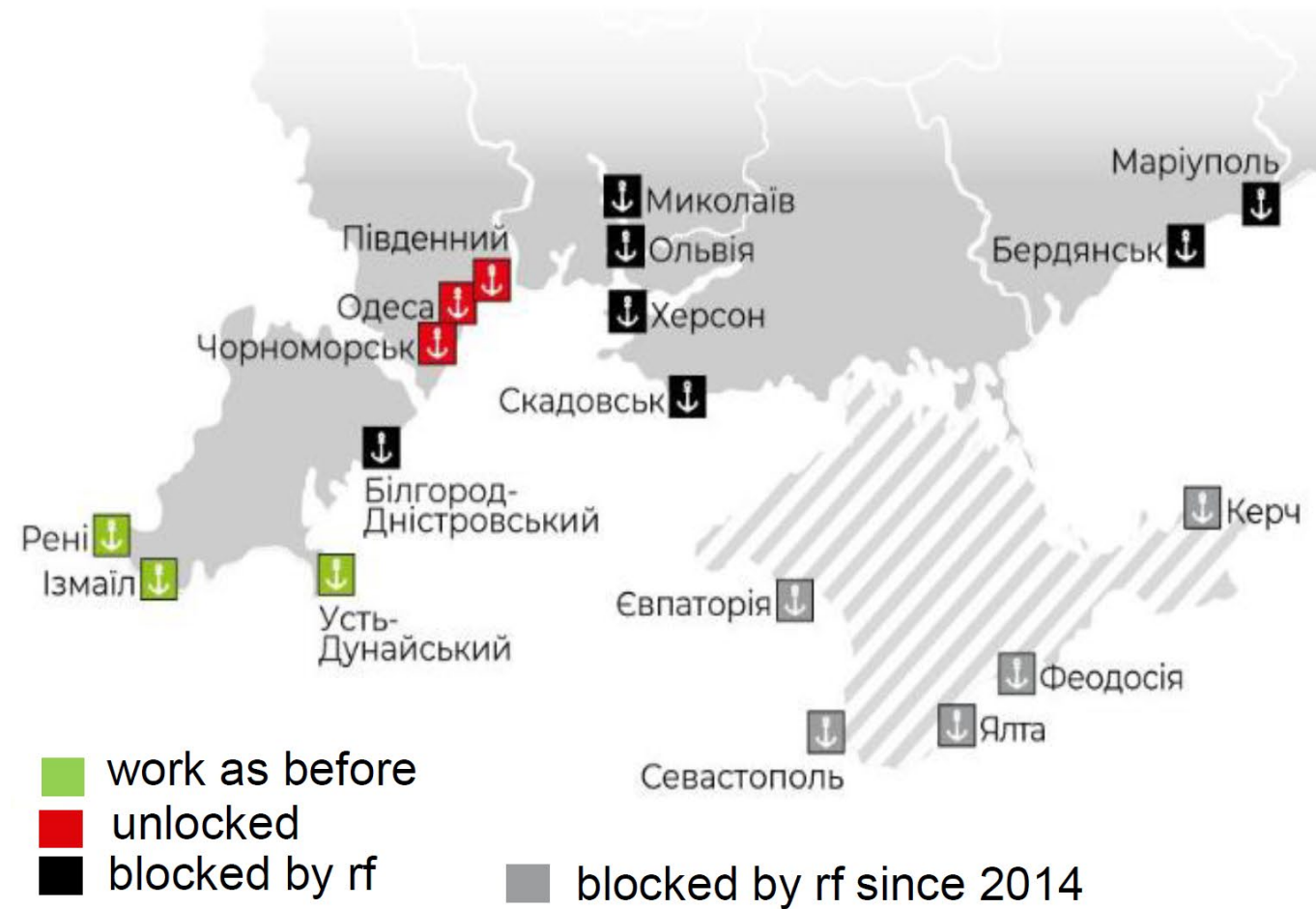
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# EXTERNAL BALANCE

- Fundamental problem: Ukraine can't physically export its main products

## Status of Ukrainian ports



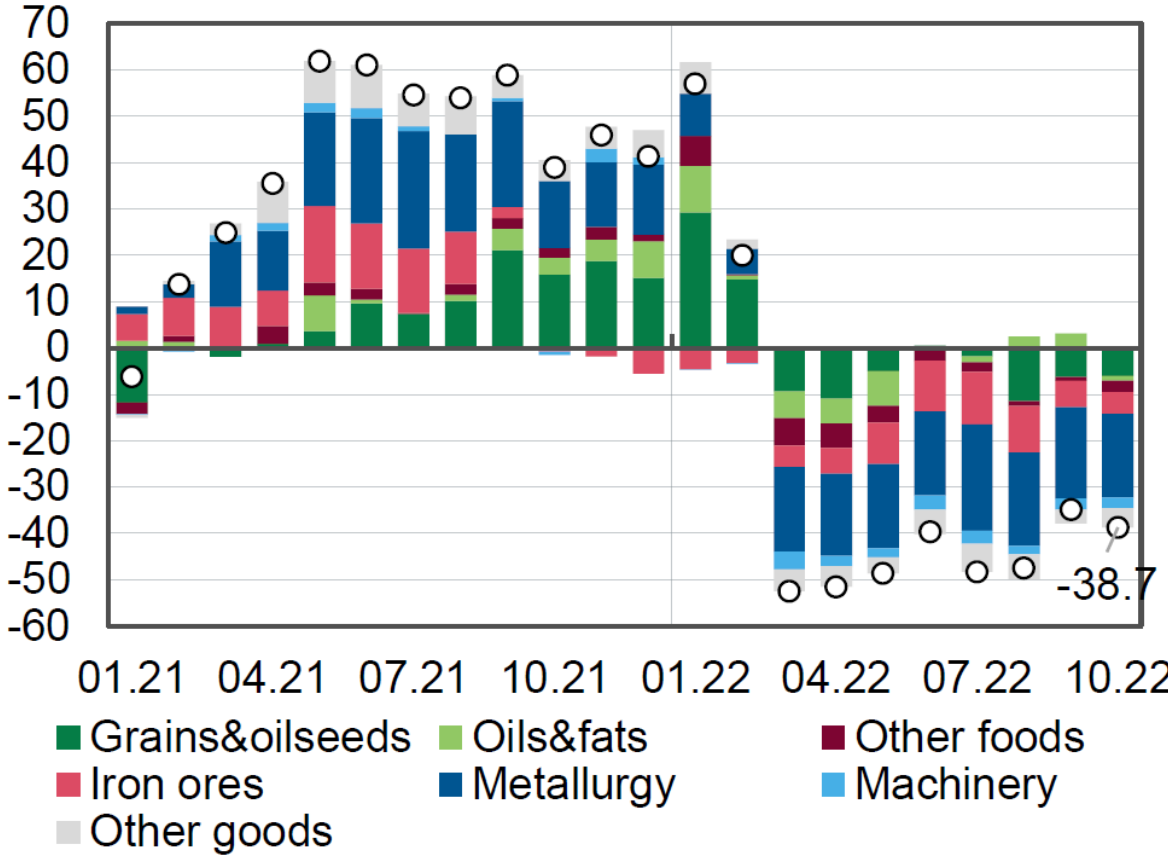
Source: MinAgro, uawarinfographics.



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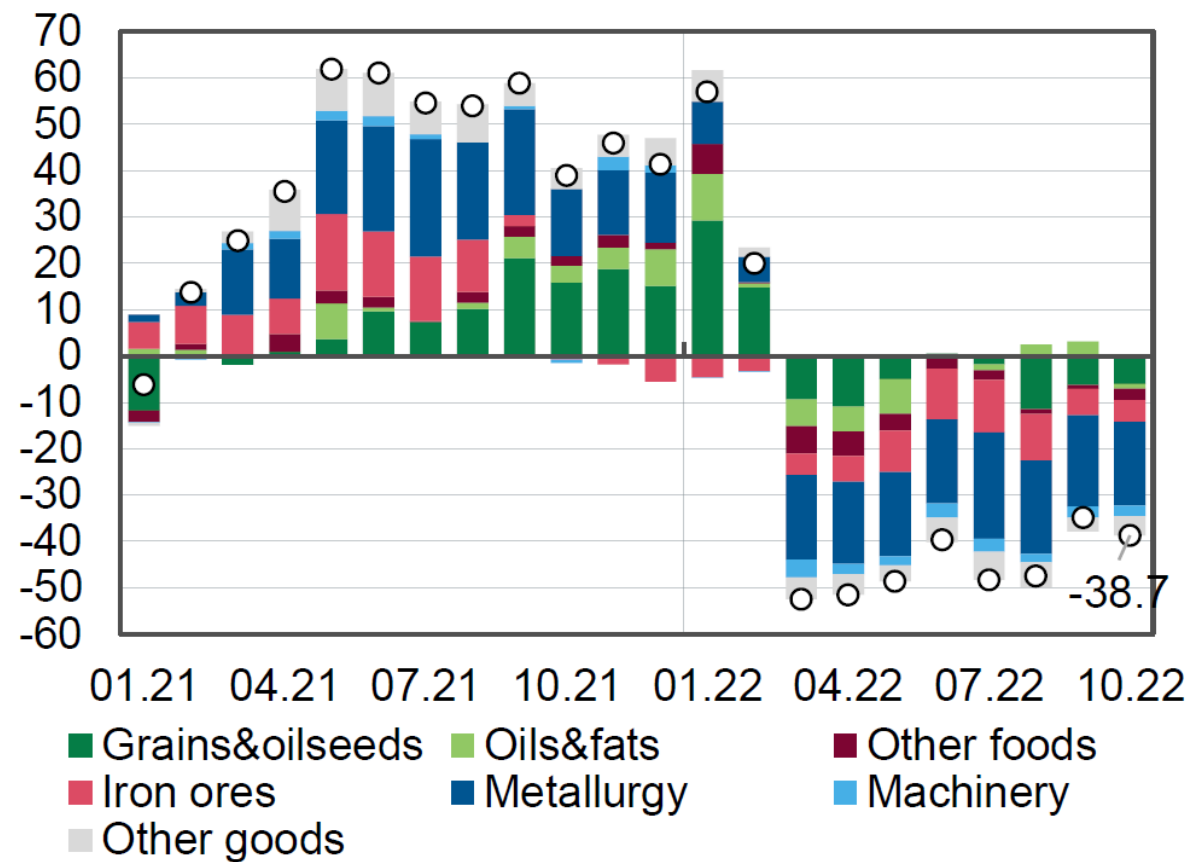
Export growth



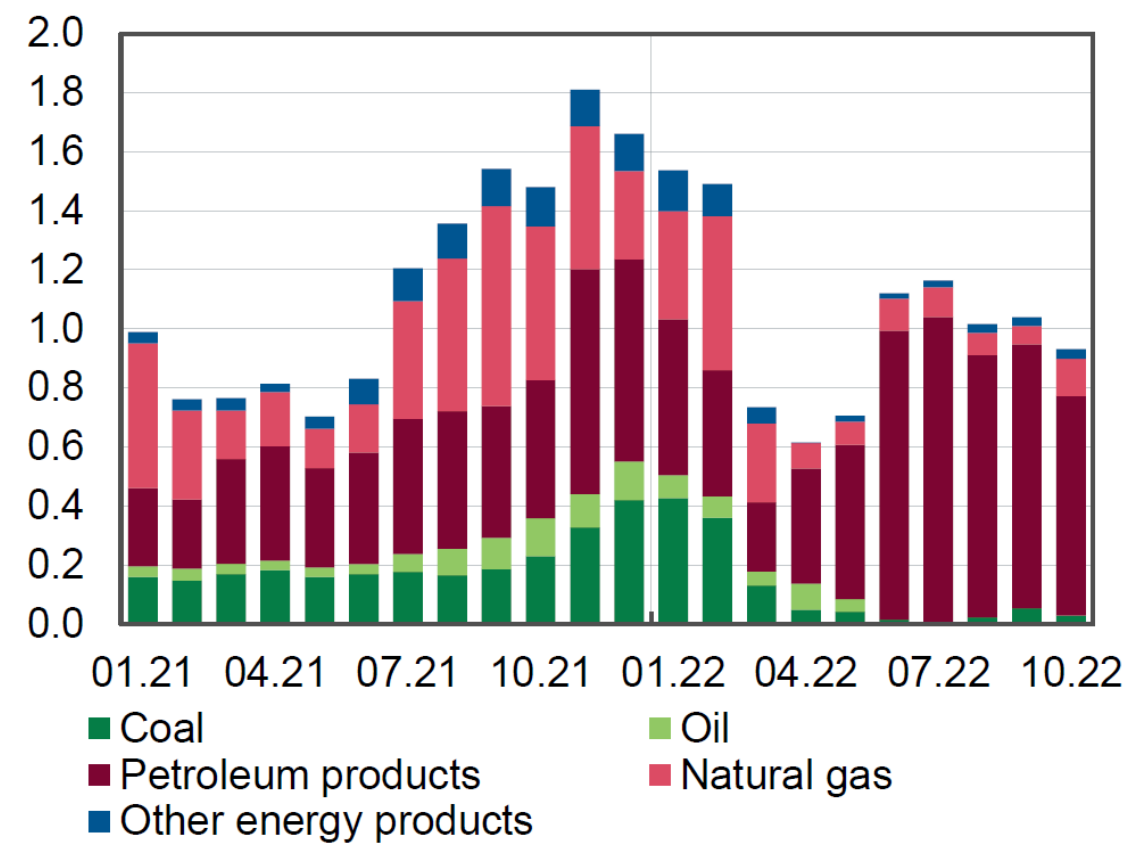
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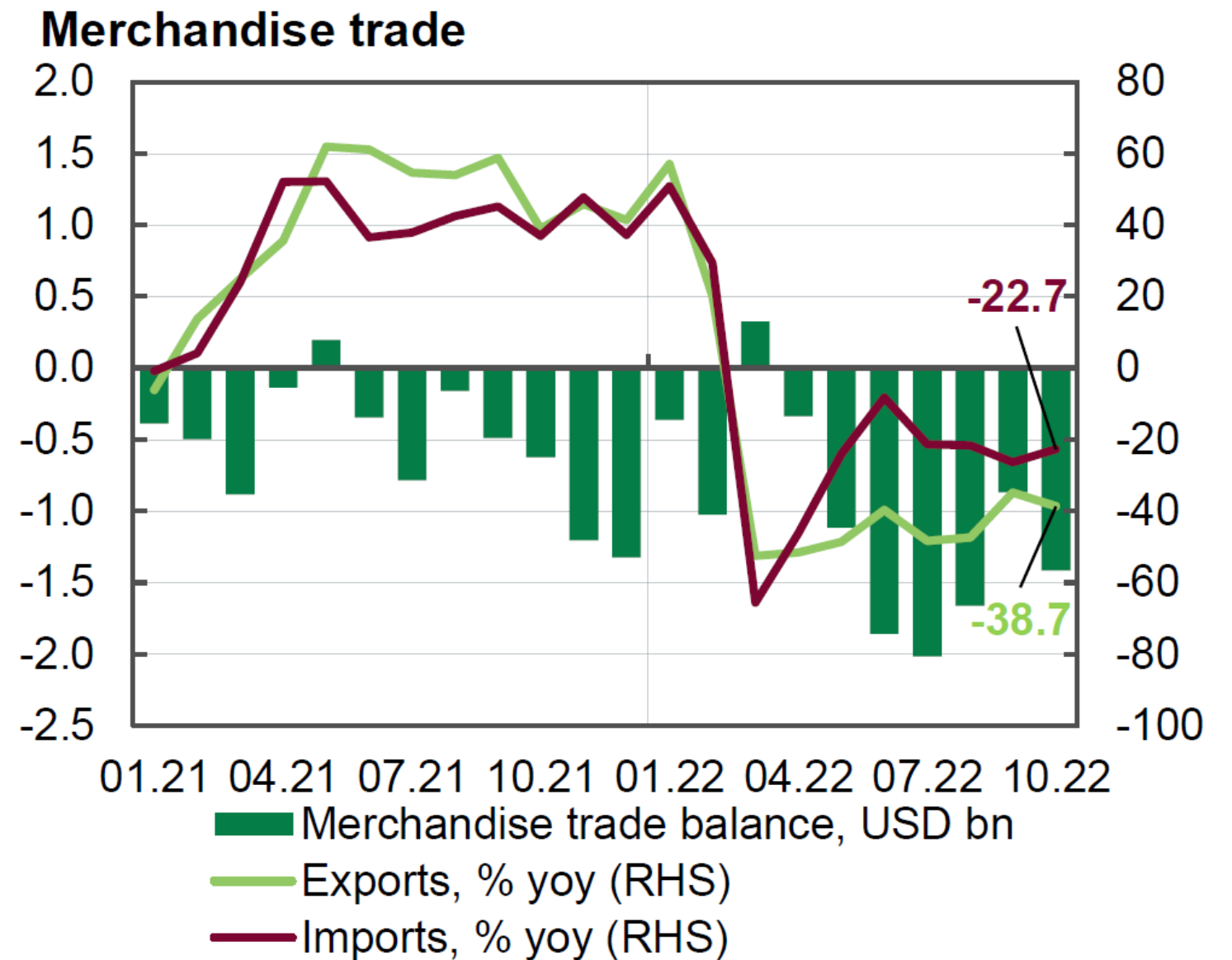


Energy import



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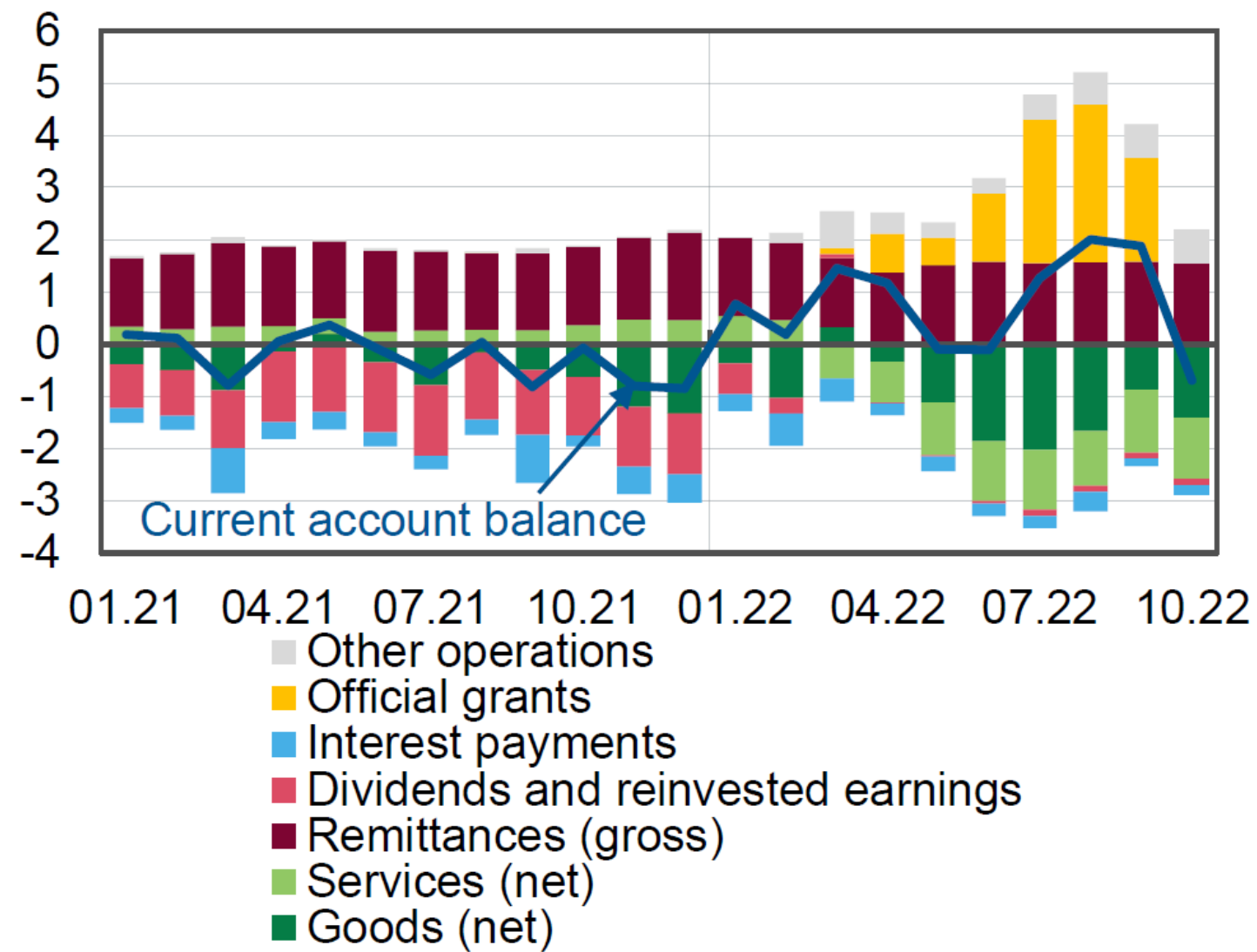




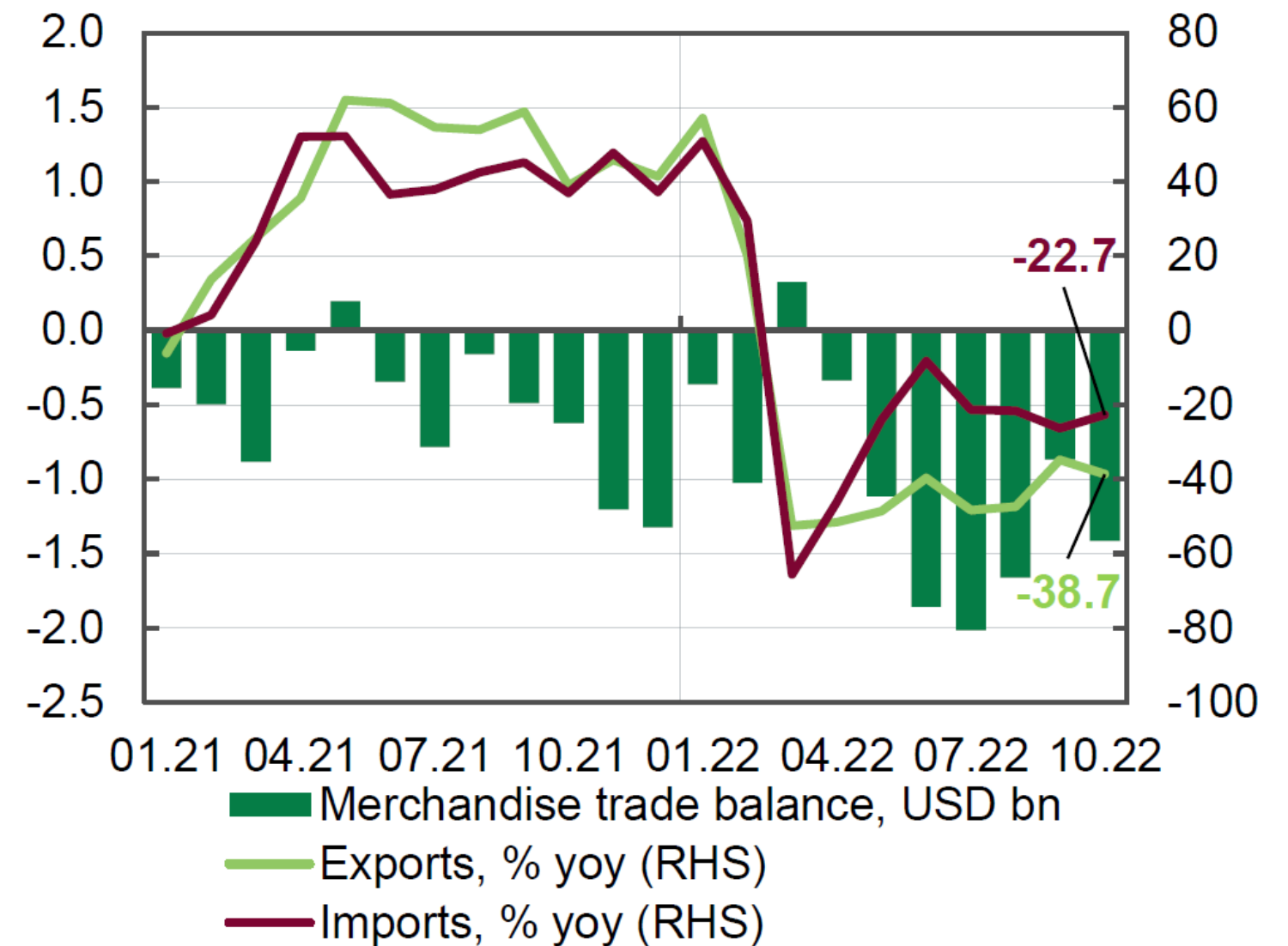
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**Current account balance, USD bn**



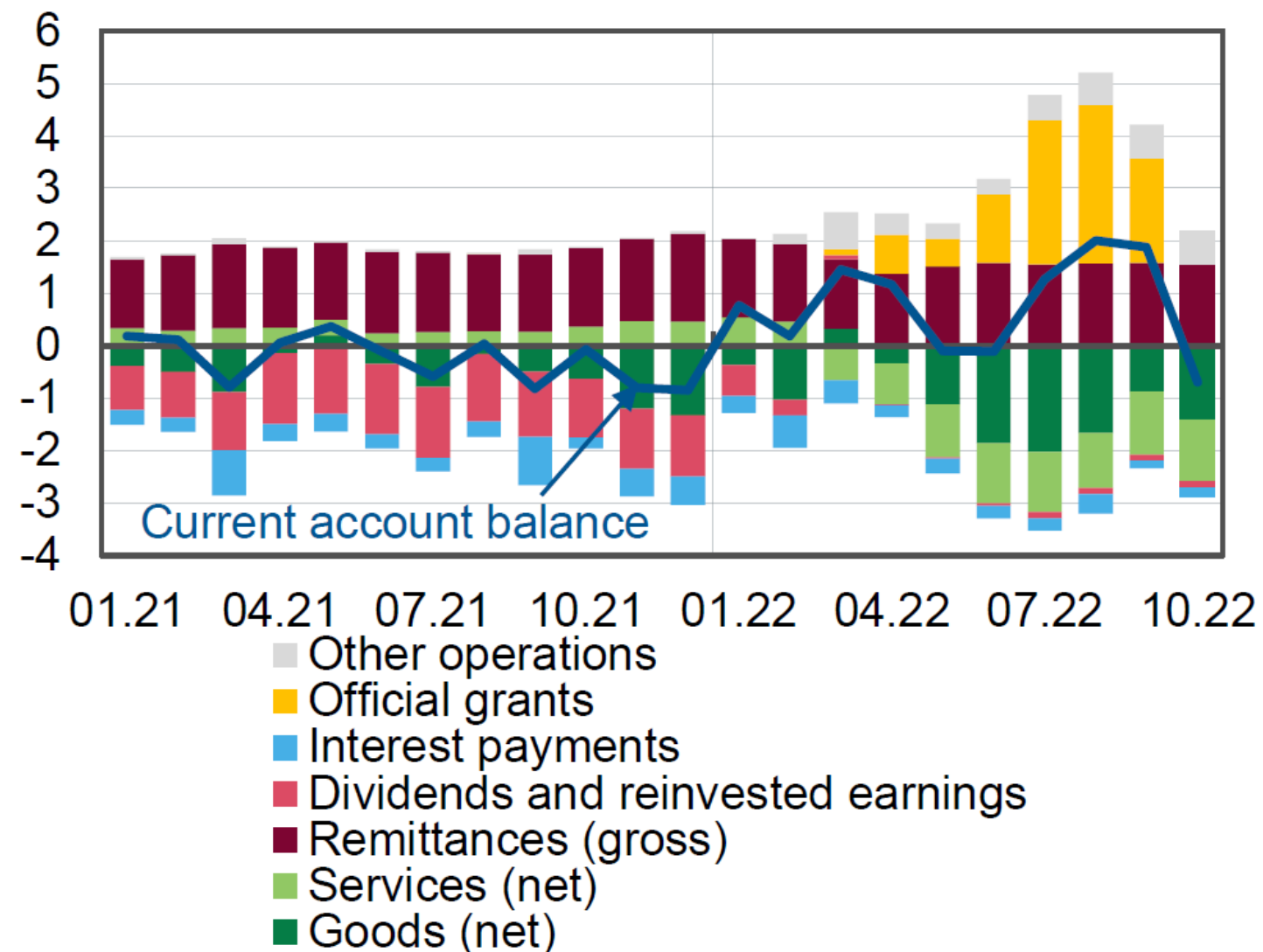
**Merchandise trade**



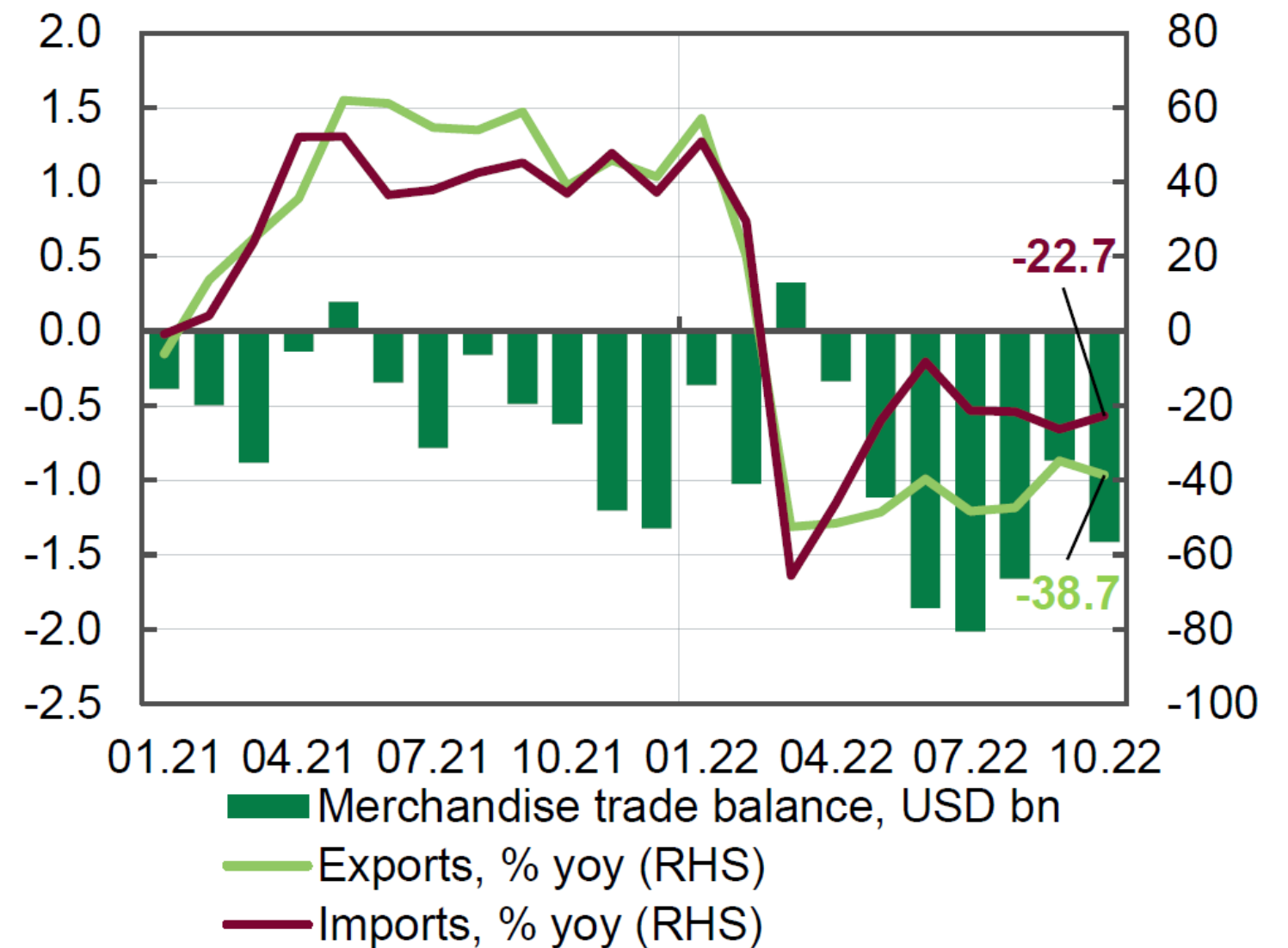
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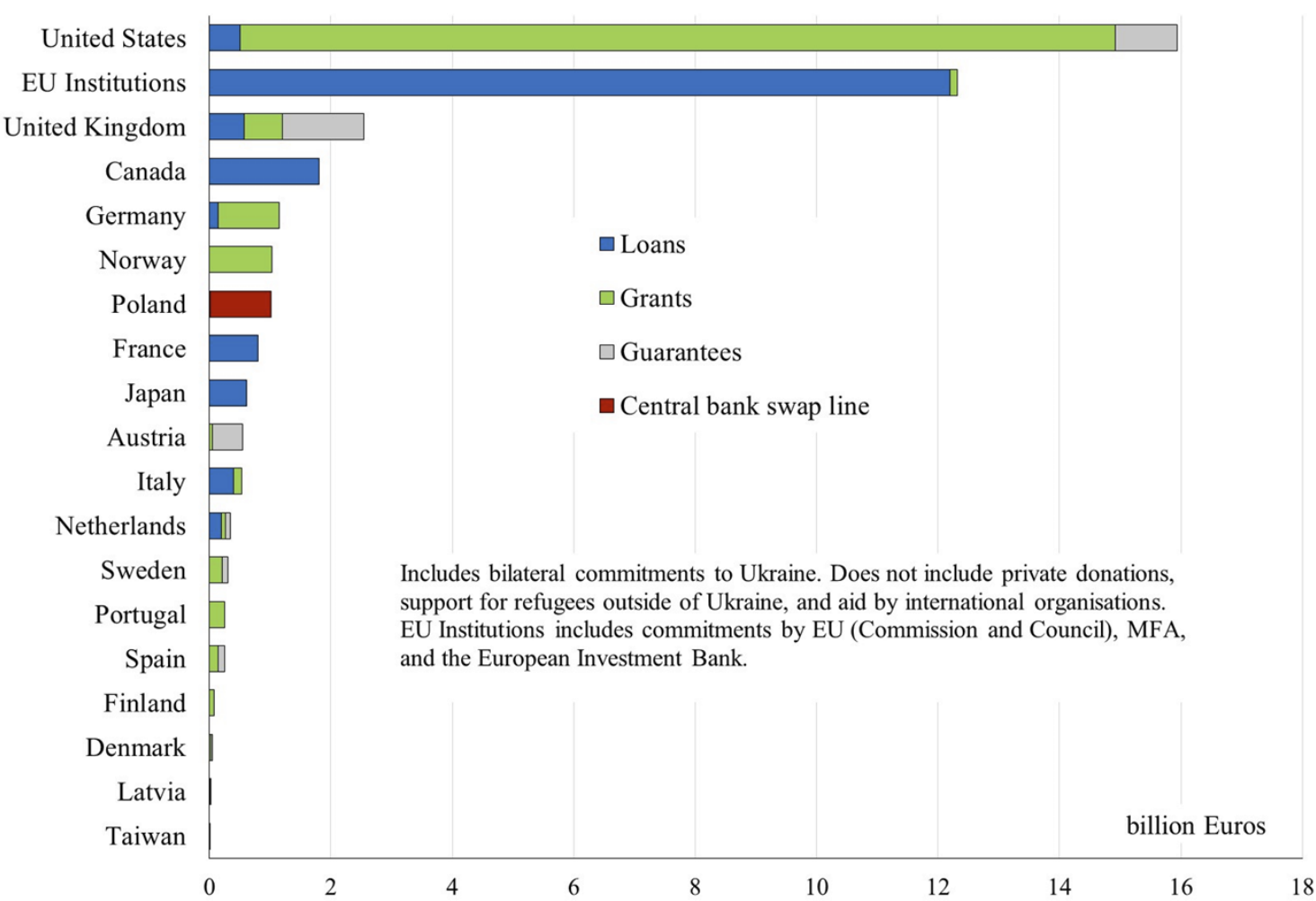
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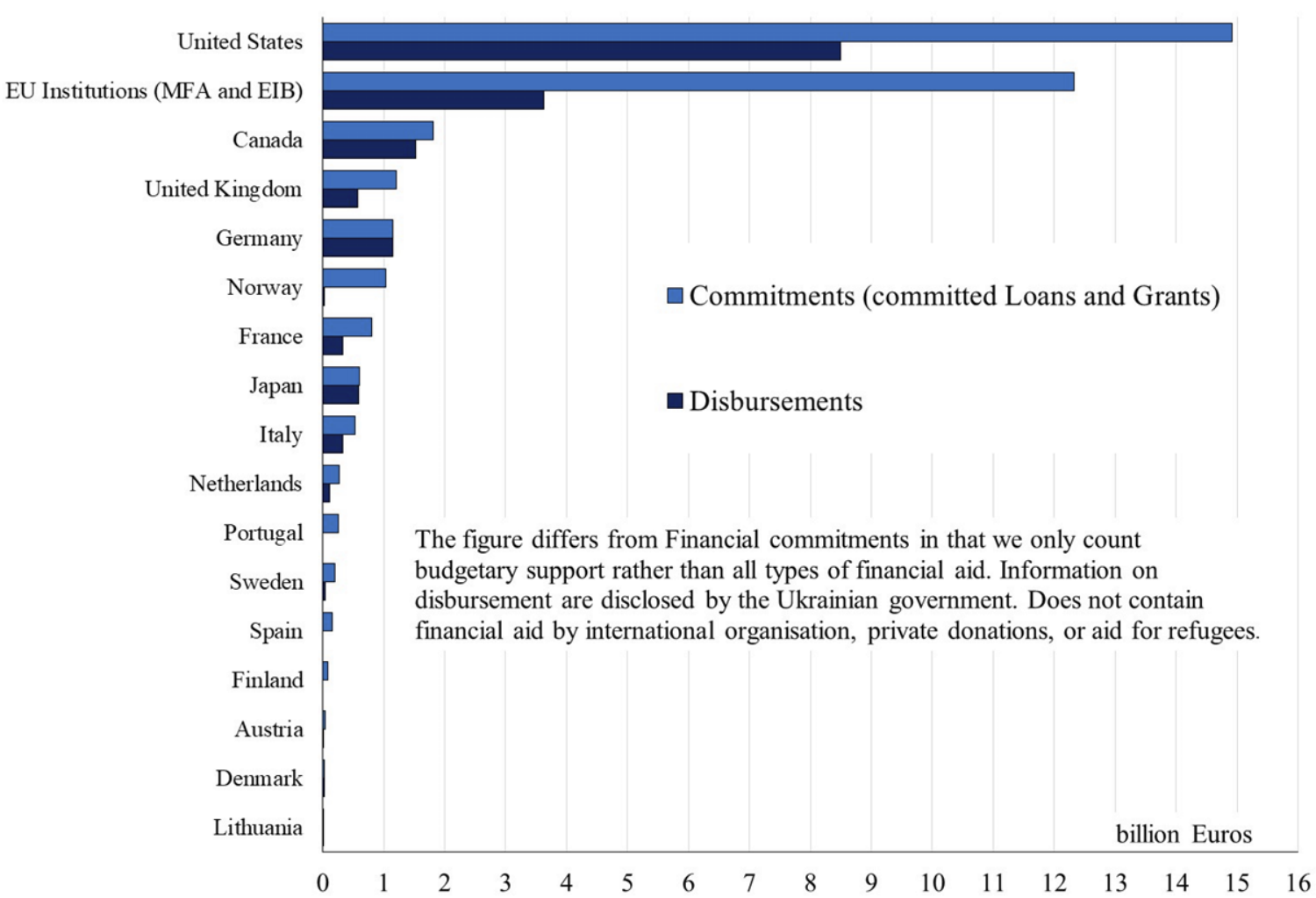
- Help exports (“grain deal”), restrict imports, maintain capital controls, standstill on public debt payments
- (Future) Managed float for the exchange rate to allow market forces to make the adjustment

# SOLUTION: ECONOMIC AID TO UKRAINE

Composition of aid



Commitments vs. Disbursements



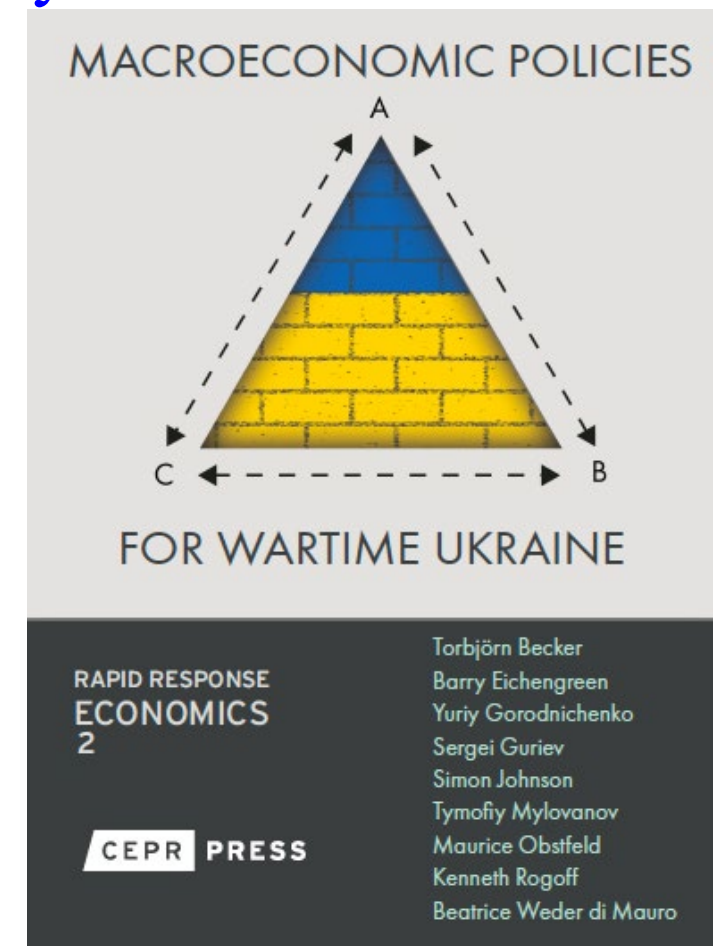


# CONCLUDING REMARKS

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- Marathon of this potential war of attrition means tough decisions and many sacrifices
  - Prudence and caution in public finances
  - Durable nominal anchor
  - Resilient financial system
  - Careful management of external balances
  - Flexible and efficient allocation of scarce resources



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  - Flexible and efficient allocation of scarce resources
- The Russian invasion is a massive threat to global security.
  - Ukraine's very survival—and Europe's future—is at stake.
  - Need extraordinary support from Ukraine's international partners.
  - Economic and military aid to Ukraine is the best investment in peace.

